

## Message Text

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ACTION EB-07

INFO OCT-01 AF-08 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

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TO SECSTATE WASHDC PRIORITY 8037

USDOC WASHDC PRIORITY

INFO AMEMBASSY LONDON

AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY PARIS

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E. O. 11652: N/A

TAGS: BENC, ENRG, NI

SUBJ: MAJOR PROJECT: NIGERIAN PETROCHEMICAL COMPLEX

REF : A) STATE 279377; B) LAGOS 9316 AND PREVIOUS

1; EMBOFF LEARNED NOVEMBER 30 THAT MINISTRY OF INDUSTRIES (MOI) PROJECT OFFICER DR. A.J. OYEKAN IS IN SAUDI ARABIA ON PILGRIMAGE TO MECCA AND WILL NOT RETURN UNTIL DECEMBER 10. OYEKAN'S ASSISTANT, MR. OYELADE, SAID SHORT LIST OF FOREIGN PARTNERS IS BEING PREPARED. HIS OFFICE WAITING FOR FINAL RECOMMENDATIONS FROM CONSULTANTS CHEM SYSTEMS IN LONDON. NEXT STEP WILL BE FORWARDING MATTER TO MOI PERMSEC FOR FINAL DECISION. OYELADE SAID MOI HAD NOT CONTACTED ANY COMPANIES YET.

2. OYELADE AWARE HATFIELD'S INVITATIO OYEBAN TO VISIT US BUT SAID IDEA QUOTE BIT PREMATURE UNQUOTE AT THIS TIME.

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3. RE DIAMOND SHAMROCK'S RENEWED INTEREST, SUGGEST GETTING IN TOUCH WITH GEORGE F. WILDEMAN, PROJECTS BUSINESS MANAGER, INTERNATIONAL DIVISION, 1100 SUPERIOR AVENUE, CLEVELAND, OHIO 44114, TELEPHONE 216-694-5309. WILDEMAN INTRODUCED TO EMBOFF LATE SEPTEMBER BY CHRIS G. PEACOCK, PROJECT MANAGER OF CHEM SYSTEMS. ACCORDING TO PEACOCK, CHEM SYSTEMS ITSELF TOOK INITIATIVE TO CONTACT DIAMOND SHAMROCK IN EFFORT TO LOCATE SUITABLE JOINT VENTURE OPERATING PARTNERS FOR COMPLEX. DIAMOND SHAMROCK INTERESTED IN CHLORINE/CAUSTIC SODS ASPECT.

4. PEACOCK PROVIDED OTHER INTERESTING DETAILS ON PETRO-CHEMICAL PROJECT. HE SAID FIRMS STILL INQUIRING FROM BRITAIN, GERMANY, ITALY, FRANCE AND US. NO JAPANESE FIRMS. HOECHST AND SHELL, MENTIONED REFTEL A, AND B.F. GOODRICH AND DIAMOND SHAMROCK, ACCOUNT FOR UK, GERMANY AND US. NOT AWARE WHO FRENCH AND ITALIAN FIRMS MIGHT BE.

5. COST OF COMPLEX NOW ESTIMATED AT 700 TO 800 MILLION 1976 DOLLARS, NOT REPEAT NOT INCLUDING INFRASTRUCTURE SUCH AS ROADS THROUGH MANGROVE SWAMPS, HOUSING, AND JETTIES. DEPT 70 PERCENT, EQUITY 30 PERCENT. EQUITY TO BE FURTHER DIVIDED 60 PERCENT FMG, 30 PERCENT FOREIGN AND 10 PERCENT NON-GOVERNMENT NIGERIAN OWNERSHIP. THIS WOULD REDUCE INVESTMENT NEEDED FROM FOREIGN PARTNERS TO DOLLARS 72 MILLION (ASSUMING COST OF 800 MILLION). PEACOCK SAID FMG IN ADDITION CONSIDERING SEPARATING OUT STILL MORE ELEMENTS OF PROJECT THAT NOT OF INTEREST TO FOREIGN INVESTOR, FINANCING THESE ITESLF, AND THUS REDUCING FOREIGN FIRM'S REQUIRED INPUT TO SOMETHING LIKE FIVE PERCENT OF TOTAL COST. COMMENT: IT IS OBVIOUS FMG IS HAVING A HARD TIME ATTRACTING FOREIGN INVESTORS.

6. PORT HARCOURT, PEACOCK SAID, IS MOST LIKELY SITE FOR COMPLEX. PROJECT AS FINALLY ENVISAGED, WILL PRODUCE HIGH AND LOW DENSITY POLYETHELENE (FORMER WILL BE USED TO MAKE ITEMS LIKE BEER AND MILK CRATES, LATTER TO MAKE WRAPPING FILM AND BAGS), PVC, AND CAUSTIC SODA. CAPACITY OF THE PLANT IS NOT YET FIRM, DEPENDS ON EVENTUAL JOINT VENTURE PARTNER. HOWEVER, PEACOCK GUESSED IT WOULD BE IN NEIGHBORHOOD OF 120,000 TONS PER YEAR EACH OF LOW DENSITY POLYETHELENE FILM AND PVC, AND 60,000 TONS LIMITED OFFICIAL USE

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PER YEAR HIGH DENSITY POLYETHELENE. PRODUCTION WILL BE AIMED ENTIRELY AT DOMESTIC MARKET, CAPACITY DESIGNED TO MEET 1985 ANTICIPATED DEMAND. FIRST UNITS TO BE ON STREAM 1980-81, WILL PRODUCE HALF OF EVENTUAL MAXIMUM OUTPUT. PEACOCK SAID FOREIGN PARTNER FOR PVC PRODUCTION MAY GET LICENSE TO IMPORT PVC INTO NIGERIA BETWEEN NOW AND 1981 TO DEVELOP MARKET FOR THIS PRODUCT.

7. PETROCHEMICAL COMPLEX MAY ALSO AT LATER DATE ADD FACILITIES

TO PRODUCE METHANOL (OF CHEMICAL GRADE RATHER THAN FOR USE AS FUEL) PEACOCK ESTIMATED CAPACITY MIGHT BE 1,000 TONS PER DAY. MOST WOULD HAVE TO BE EXPORTED, BUT SOME WOULD BE USED DOMESTICALLY IN MANUFACTURE OF THERMOSET RESINS (LIKE BAKELITE), PLYWOOD, AND CHIPBOARD. CHEM SYSTEMS NEW YORK OFFICE IS NOW DOING A WORLD-WIDE MARKET SURVEY ON THIS.

8. PLANS FOR FINANCING 70 PERCENT DEBT PORTION OF PETRO-CHEMICAL COMPLEX, ACCORDING TO PEACOCK, ENVISAGE 37 PERCENT IN FORM OF EIGHT YEAR EXPORT CREDITS, 25 PERCENT IN EURODOLLAR COMMERCIAL BANK LOANS, AND THE REMAINING EIGHT PERCENT IN SOFT TERM LOANS OF SOME KIND. FOREIGN PARTNERS MAY HAVE TO GUARANTEE SOME PORTION OF DEBT FINANCING

9. PEACOCK SAID WHAT IS REALLY HOLDING UP PROGRESS ON PETROCHEMICAL COMPLEX IS THAT ECONOMICS OF ETHYLENE PLANT (WHICH WILL BE 100 PERCENT FMG OWNED) ARE UNCERTAIN DUE TO INABILITY TO RESOLVE QUESTION OF FEEDSTOCK. MEETINGS WERE HELD ON THIS IN JANUARY AND FEBRUARY 1976, AT WHICH TIME THE MINISTRY OF INDUSTRIES TOLD CHEM SYSTEMS THAT GAS FEEDSTOCK WOULD BE PROVIDED FROM INDEPENDENT MOI GATHERING SYSTEM. AS RESULT OF ASSASSINATION OF HEAD OF STATE IN FEBRUARY AND SUBSEQUENT DISLOCATION OF FMG, NEXT MEETING ON SUBJECT WITH CHEM SYSTEMS NOT HELD UNTIL JUNE. CHEM SYSTEMS SENT TWO EXPERTS TO NIGERIA IN AUGUST TO STUDY CASH FLOWS AND PROJECT SCHEDULE, BUT FEEDSTOCK ISSUE UNRESOLVED THEN AND STILL IS. MINISTRY OF PETROLEUM RESOURCES INSISTS IT WILL CONTROL ALL GAS GATHERING, AND NATIONAL GATHERING GRID WILL NOT BE READY FOR LONG TIME. SINCE BEST FEEDSTOCK, ETHANE SEPARATED FROM METHANE, WILL NOT BE AVAILABLE IN TIME, CHEM SYSTEMS NOW CONSIDERING STOPGAP OF IMPORTING NAPHTHA OR PROPANE TO RUN COMPLEX, OR EVEN CONSTRUCTION OF OFFSHORE GAS SEPARATION PLANT.

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